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EDS09 OFFICE OF THE EXECUTIVE DIRECTOR FOR

Australia, Cambodia, Kiribati, Korea, Marshall Islands, FS Micronesia, Mongolia,
Nauru, New Zealand, Palau, PNG, Samoa, Solomon Islands, Tuvalu, Vanuatu



Foreword from Executive Director

Colleagues,

Greetings! I hope that our newsletter finds you and your families in good health. For the first time since the onset of the pandemic, we met some of you in person during the 2022 Spring Meetings and met others virtually in bilateral calls with Bank staff.

The mood is certainly less optimistic and the environment less predictable than we could have imagined at last year's Annual Meetings, with the war in Ukraine displacing millions and resulting in heightened uncertainty on global markets. Rising food and energy insecurity are compounding pre-existing challenges, near and long term, including the economic recovery, health security, climate change, and the significant rise in fragility, conflict, and irregular transitions of power across the world. The impacts will unfortunately be felt most acutely by the poorest, worsening the pre-existing food security crisis and the increase in poverty, inequality, and the reversal of human development gains precipitated by the pandemic.

The Spring Meetings provide an opportunity to reflect upon the events of the last six months and the consequences for the global economy of recent commodity price shocks, inflationary pressures, tighter financial conditions, and debt distress. The pandemic is far from over, much as we would like it to be, as the world continues to grapple with its health and economic impacts. There remain longer-term questions about how we regain momentum on reaching the SDGs, address climate change and enhance global health security and pandemic preparedness, including through the proposed establishment of a Financial Intermediary Fund.

I am sure that some of you are juggling multiple policy challenges, with many countries facing stretched fiscal positions, increased poverty, and many years before restoring pre-pandemic per capita incomes. After successfully keeping the virus at bay for much of the last two years, some of you have had to contend with the recent arrival of more contagious variants of COVID-19, testing health systems. At the same time, vaccination rates have increased but diverge significantly amongst countries in the constituency.

This newsletter includes updates on the various policy issues before the Board of the World Bank Group (WBG) in recent months. The unprecedented COVID-19 crisis response efforts of the WBG involved financial support for health, education, and social protection for the most vulnerable, including efforts to purchase and distribute vaccines. Vaccination rates have increased significantly across the globe as supply is no longer the binding constraint, and the WBG has redoubled efforts to strengthen country systems to overcome significant differences in vaccine deployment across the world. Climate change has remained a strong focus for the Bank in the months that have passed since COP26, as it implements the Climate Change Action Plan (CCAP) for 2020-2025. We also saw the exceptional twentieth replenishment of IDA concluded in December, a record \$93 billion, and the World Bank Group's efforts to assist small states in recent years. We are now in the last quarter of the IDA19 cycle and hope that you are working with your Bank counterparts in the final stages of preparing projects before the end of the fiscal year.

The Bank is uniquely positioned to work with you to navigate the development challenges ahead. I continue to press issues at the Board that matter to your countries, including in particular the challenges faced by small island states in rebounding from the largest shock in their history. Please do not hesitate to reach out to me, the relevant adviser in the office, or your local country representative if you would like further information or if your needs are not being met. On our side, we now have a full team on board with the arrival of Mr. Niuatui Niuatui, Adviser from Tuvalu, and we will make greater efforts over coming months to make regular contact with you.

Nigel

Development Committee

The Development Committee discussion was dominated by the compounding crises that countries are facing while being less able to respond due to rising debt and interest rates, exacerbated by the Russian invasion of Ukraine and the shockwaves it is sending across the world with food shortages and increased commodity prices.

While participants emphasized that global cooperation was more important than ever to address these challenges across multiple fronts, members could not achieve consensus on a communique for the first time, highlighting the fractures across the international system.

The Chair highlighted three key issues:

1. The ongoing public health crisis due to the pandemic and the threat of new variants. Vaccine distribution remains a public policy priority, and countries need to be better prepared for future pandemics.
2. Higher debt servicing costs undermine governments' ability to help the most vulnerable. The pandemic and crisis in Ukraine will also increase debt levels in middle-income countries.
3. We face a global climate emergency and should not lose sight of long-term development goals focused on a low carbon recovery.

Developed countries should meet the commitments to support developing countries meet their climate goals. Achieving this global public good requires coordinated international action.

President Malpass emphasized the importance of reinvigorating the G20 Common Framework on Debt, advocating for quicker and more efficient processes in implementation, debt service stand-still with no penalty, agreement on how official bilateral creditors will assess, and enforce treatment, and expansion of debt treatments to non-DSSI economies with vulnerabilities.

Looking to the year ahead, we expect ongoing policy discussions at the Bank on debt vulnerabilities, global public goods, digital transformation, climate change, and fragility. We will continue to engage in these discussions, applying a lens from our constituency members' particular concerns and needs.

Policy Issues

❖ Fragility

In recent years, the WBG has stepped up its engagement in situations of fragility, conflict, and violence (FCV). Our constituency has benefited from the financing innovations, including a significant scaling up of finance to small states and fragile and conflict-affected situations in IDA18 and IDA19, new financing windows, and a range of policy commitments. The FCV Strategy for 2020-2025 continues to provide a foundation for the WBG to engage flexibly, in a differentiated manner, encouraging a long-term view over multiple engagement cycles. Financing for FCS countries is at an all-time high. For instance, the share of IDA financing between IDA16 and IDA19 increased (from 14 to 44 percent), with US\$20.8 billion in IDA19 and half of trust fund disbursements for recipient-executed activities made to FCS countries. Implementation of the FCV Strategy's key elements -- including operational measures, analytical and strategic work, and increasing the WBG staff footprint – is on track.

Yet the global context has made operating in FCV contexts increasingly difficult. In recent times, we have seen an uptick in coups and other irregular transitions of power, increased interstate tensions and conflicts, and the

internationalization of intrastate conflicts, all consequences of heightened great power competition. At the same time, conflict is converging and compounding different types of risks: health security, economic, geopolitical, technological, climate, ecological. Given that ‘remaining engaged’ is a vital pillar of the FCV Strategy, this poses dilemmas for the WBG in dealing systematically and consistently with regimes that have come to power through irregular means. It also places an imperative on strengthening partnerships, especially with United Nations agencies, who are increasingly implementing Bank projects in conflict situations. The ability to adapt in volatile and fast-moving contexts remains imperative.

The FCV Strategy extends beyond countries in active armed conflict to countries with predominant institutional, social, or political fragility. We continue to encourage the Bank to improve its analytical frameworks and engagement models for countries whose fragility lies in their economic geography, small scale, and ethnic fractionalization. We look to the WBG for thought leadership in this regard.

❖ COVID Response and Vaccine Update

Pandemic Response

In the first two calendar years since the COVID-19 pandemic (April 2020 until December 2021), the WBG delivered the largest and fastest emergency financing response in its history, amounting to \$204 billion of support to developing countries to fight the pandemic’s health, economic, and social impacts. IDA/IBRD commitments have amounted to \$135 billion, \$60 billion from IFC and \$9 billion from MIGA. In addition to ongoing support for health systems, the operations emphasize social protection as well as policy-based financing, including support for macro-economic stability, institutional reform, better debt and financial management, and opportunities for low-carbon development. Several members of our constituency have benefitted from emergency response health projects and other investment loans and development policy lending, including Cambodia, Kiribati, Marshall Islands, Mongolia, Papua New Guinea, Samoa, and the Solomon Islands.

Vaccine Update

Vaccination rates have significantly increased across the globe, but the large divergence amongst countries threatens to perpetuate a two-track pandemic. The WBG’s vaccine response has focused on the institution’s comparative advantages: finance at scale, its role as a global convenor, and its leadership in analytics. The Bank built upon its initial COVID-19 health response with a \$12 billion financing package to help low- and middle-income countries purchase and distribute vaccines, tests, and treatments, with a further \$8 billion added to the vaccine envelope (to \$20 billion) last June. The WBG’s operational systems have adapted significantly to the urgency of vaccine projects, with disbursement being ten times as fast as in other WB health projects.

To date, the Bank has committed almost \$8 billion in vaccine finance to 71 countries, with a further \$2.5 billion in the pipeline. The Bank’s finance may be used flexibly to acquire vaccines purchased through advance purchase mechanisms like COVAX, directly from approved manufacturers, or excess stock from other countries. While many countries in our constituency have relied upon bilateral partners for vaccine acquisition and distribution, WBG finance and technical assistance have been used for health systems strengthening, and Mongolia, Cambodia, and Papua New Guinea are implementing vaccine projects.

In recent months, we have seen a shift from aggregate supply being the critical constraint to plentiful supply of vaccines globally. The challenges have shifted to much tougher constraints on the deployment side – vaccine hesitancy, education, indifference, and competing expenditure priorities for governments. The WBG is moving to very tailored and country-focused agendas, especially in countries where vaccination is lagging and where governments want Bank assistance to highlight bottlenecks in deployment.

With the easing of vaccine supply constraints, the WBG is also shifting to a new equilibrium in its health response – renewing the focus on the Bank’s long-term agenda of systems strengthening at the country level and stepping up for the generational challenge of pandemic preparedness at the global level. The WBG has learned an extraordinary amount during the pandemic --- it became a global convenor on vaccines (including through the Multilateral Leaders Task Force), forged new and deeper partnerships (with other multilateral development banks and parts of the global health architecture, COVAX/AVATT) and led analytics across 150 countries. We hope that this learning can inform the establishment of the proposed Financial Intermediary Fund on pandemic preparedness.

❖ Addressing Debt Vulnerabilities

Debt reached record levels during the pandemic in both advanced economies and emerging market and developing economies (EMDEs). The Russian invasion of Ukraine and the prospect of higher interest rates add to the problem. For the poorest and most fragile countries, high fiscal and debt vulnerabilities undermine macroeconomic stability and constrain broad-based growth necessary to support post-COVID recovery. The creditor base has become more heterogeneous, adding complexity to debt-restructuring efforts.

In response to the increased debt risk, the WBG provides wide-ranging support to help countries create fiscal space, develop debt sustainability frameworks, and strengthen debt transparency. In our constituency, eight countries prepared performance and policy actions (PPAs) in FY22 under IDA’s Sustainable Development Financing Policy (SDFP). The SDFP aims to incentivize the improvement of debt management by linking core allocations and the grant allocation framework to the implementation of PPAs.

As an alternative to debt, the WBG supports member countries to increase access to long-term finance through local currency securities and non-debt financial market development. The effort focuses on developing domestic financial markets and de-risking to attract long-term equity and debt investors. IFC leads with private equity and venture capital investment that provide critically needed growth capital for firms, while MIGA supports cross-border private equity through its political risk insurance instrument. Where possible, countries in our constituency could take advantage of these efforts for development finance.

For debt resolution, the WBG provides technical support to the G20’s Debt Service Suspension Initiative (DSSI) and the G20’s Common Framework for debt treatments. As the DSSI expired, the WBG and IMF are working to realize the potential of the Common Framework, including expanding eligibility to highly indebted countries beyond DSSI, including ten of our eligible constituency members. This office will continue to advocate for the interest of our members and explore debt solutions.

❖ Climate Change

Central to the Bank’s Climate Action Plan 2021-2025, launched in July 2021, is the development of Country Climate and Development Reports (CCDRs) to inform key planning documents like the Systematic Country Diagnostic (SCD) and Country Partnership Framework (CPF).

CCDRs will be based on each country’s development goals and aligned with its climate change commitments. They will identify the risks from climate change and opportunities for a low-carbon, resilient growth path. CCDRs are intended to serve as a platform for coordinated action at the country level, including identifying financing opportunities.

The first CCDRs to be developed in FY22 cover almost 30 countries representing 3.4bn people and 45% of global GHG emissions and will be published ahead of COP27. No countries from our constituency are included in this first generation (China, Indonesia, Philippines, and Vietnam from the East Asia and Pacific region will be), nor are any small states. We will continue to engage in the evolution of the CCDR process to ensure it can be adapted for a Pacific context.

The other priority for the WBG over the coming year is aligning new operations with the Paris Agreement. All World Bank operations must be aligned by July 2023, while IFC and MIGA have until 2025 (with a target of 85% by July 2023). Operations are considered Paris-aligned when (i) they have no adverse effect on the use of lower carbon alternatives; (ii) the design of operations helps manage physical climate risks; and (iii) they deliver on their development objectives.

❖ ***Doing Business***

Following the President's decision in September 2021 to discontinue the Doing Business project, the Bank is formulating a new approach to assessing the business and investment climate in economies worldwide. The working title for the new approach is the Business Enabling Environment (BEE) project. Its purpose is to collect detailed data to assess the environment for private sector development with the aim to support reform advocacy.

It will differ from Doing Business by looking at how conducive the business environment is for private sector development as a whole, and not just for individual firms or sectors. Another significant change is that measures will consider both the regulatory framework and the provision of public services that support the business environment (e.g., institutions to enforce contracts). To provide a more accurate assessment, both de jure (official) and de facto (in practice) measurements will be included.

While detailed indicators and scores are still under development, these will be organized by the life cycle of a business: opening, operating, and closing. Whether these indicators will be grouped into aggregate scores, by topic or by economy, is to be decided.

Thank you to members who submitted feedback on the proposed approach to BEE via the constituency office in March. We will provide updates throughout the year as BEE is developed.

Finance and Governance

❖ ***IDA 19 Update and IDA 20 Replenishment***

IDA19 has delivered an impressive COVID-19 response, with nearly 70 countries benefiting from IDA financing for vaccines, health professionals' training, and hospital equipment. Over 60 percent of climate financing has focused on adaptation and resilience, including supporting 62 countries in institutionalizing disaster risk reduction plans. IDA19 introduced greater debt transparency through the Sustainable Development Finance Policy, with 19 countries publishing annual and timely debt reports in the fiscal year 2021.

Due to the urgent development needs of IDA countries brought about by the pandemic, a decision was made in January 2021 to advance the IDA20 replenishment by one year, beginning 1 July 2022.

In December 2021, development partners made commitments of \$23.5 billion to support a historic \$93 billion financing package to help IDA countries respond to the COVID-19 crisis and build a greener, more resilient, and inclusive future. Funds will go to tackling climate change, with a focus on helping countries adapt to climate impacts and preserve biodiversity. IDA will also deepen support to countries to better prepare for future crises, including pandemics, financial shocks, and natural hazards.

The IDA20 program has more ambitious policy commitments that will support countries in prioritizing investments in human capital, covering issues in education, health and nutrition, vaccines, social protection, and support for people with disabilities. IDA will also increase its ambition in addressing other significant development challenges such as gender inequality, job creation, and situations of fragility, conflict, and violence. A continued emphasis on governance and institutions, debt sustainability, and digital infrastructure interventions will help foster economic and social inclusion.

Voice Secondment Program

Each year, the VSP program offers civil servants from Bank client countries the opportunity to spend six months in Washington DC for an enriching capacity-building program. The program seeks to promote and provide knowledge to the participants of VSP on Bank procedures, policies, products, and operations in the capital. Candidates are selected competitively from low and middle-income countries with priority given to candidates from fragile and conflict-affected states and small island states.

Because of COVID-19 travel restrictions, the cohort from 2020 has been kept back, and no new applicants have been admitted. The following three VSP Secondees are from our constituency:

1. Ms. Silaati Tofuola Timo from Tuvalu
2. Mr. Barnabas Vote from the Solomon Islands
3. Ms. Roddie Wada from PNG

VSP Secondees have attended WBG operational workshops and training in virtual format and are expected to arrive in Washington DC for the first time in May 2022. The VSP Secondees are scheduled to complete their assignments in mid-August 2022. A call for nominations for the next VSP cohort is expected to be announced this Spring, 2022.